ILLINOIS BUSINESS REVIEW

A MONTHLY SUMMARY OF BUSINESS CONDITIONS FOR ILLINOIS

PUBLISHED BY . . . .
BUREAU OF ECONOMIC AND BUSINESS RESEARCH
COLLEGE OF COMMERCE · UNIVERSITY OF ILLINOIS

VOLUME XI | MARCH, 1954 | NUMBER 3

HIGHLIGHTS OF BUSINESS IN FEBRUARY

Business activity declined further in February. Retail sales registered a slight increase on a seasonally adjusted basis, but the Federal Reserve index of industrial production declined 1 point to 123 percent of its 1947-49 average. Bituminous coal production was down sharply as the mild winter weather reduced the demand for coal. Steel mill operations dropped to 74 percent of capacity, and paperboard output to 89 percent of capacity. Automobile production, however, was only slightly below the January level and sales improved.

Along with the decline in production the number of people unemployed and looking for work in February rose an additional 500,000 to about 3.5 million. New claims for unemployment insurance have been declining steadily since January, indicating a possible slowing of the rate of increase.

Construction Boom Rolls Along

Every month for nearly the last five years the value of new construction put in place has reached a new peak for that particular time of year. February marked no exception to this trend. Expenditures for new construction dropped less than seasonally in February, to $2.3 billion, and exceeded the dollar value of construction activity last February by 1 percent. This year-to-year margin is less, however, than for the preceding month, January, when it was 3 percent.

Registering the largest gains over last February were public utility construction, educational building, sewer and water development, and commercial and other nonresidential building (with the exception of industrial building). Private residential building was also slightly ahead of last year. Public residential construction was down sharply, as were industrial and military construction. So far this year, generally lower levels of public construction activity have been more than offset by increases in the private sector.

Retail Sales Up Slightly

Retail sales in February slightly exceeded sales in January after adjustment for seasonal and trading day differences. Higher sales of durable goods stores accounted for the rise, with sales of automotive and of lumber, building, and hardware stores rising 5 percent or more from the January lows and with merchandise sales up 3 percent.

Nevertheless, retailers in February generally did not make out as well as they did in February of last year. Retail sales during the month were about 3 percent below last February; the latter, however, marked a postwar peak. Lower sales of durable goods accounted for most of the drop. Automotive sales were down 9 percent, apparel sales, 7 percent, and sales of lumber, building, and hardware stores, 6 percent below the levels of last February.

Manufacturers' Sales, Inventories Down

Manufacturers, particularly durable-goods producers, continued to reduce their inventory holdings in January. The book value of manufacturers' inventories totaled $46.8 billion at the end of the month, down $300 million from the year-end level after seasonal adjustment, though still substantially above last January.

The inventory decline would have been even larger had sales come up to last year's levels. As it was, manufacturers' sales in January, at $22.9 billion, were nearly 5 percent below sales in January, 1953, all of the decline occurring in durable goods. New orders fell even more than sales during this period, all of that decline also taking place in durable goods. As a result, unfilled orders at the end of the month were down substantially from the levels of both last January and this December, amounting to about 2.5 months' sales.

Foreign Trade Falls Off

Foreign demand for American goods fell off in January. Total U. S. exports during the month came to a little over $1 billion, 20 percent below exports a year earlier. Substantially lower military aid deliveries accounted for part of the drop. Also of importance, however, was reduced demand for American goods. This was partly the result of lesser dependence of foreign countries on American goods because of increased production of their own and partly reflects a desire on the part of these countries to conserve their gold and dollar holdings.

Imports of foreign goods also declined in January, falling 12 percent below last January's level to $825 million.

THIS OPTIMISTIC RECESSION · · · · **By Ruth A. Birdzell** · · · · **Page 8**

ILLINOIS BUSINESS REVIEW

Published monthly by the

BUREAU OF ECONOMIC AND BUSINESS RESEARCH
UNIVERSITY OF ILLINOIS

The material appearing in the *Illinois Business Review* is derived from various primary sources and compiled by the Bureau of Economic and Business Research. Its chief purpose is to provide businessmen of the State and other interested persons with current information on business conditions. The *Review* will be sent free on request.

Entered as second-class matter February 5, 1944, at the post office at Urbana, Illinois, under the Act of August 24, 1912.

V LEWIS BASSIE, *Director* — RUTH A. BIRDZELL, *Editor of Publications*

ROBERT FERBER, *Research Associate Professor*

Research Assistants

JAMES A. GHERITY — SHIRLEY G. RADANT

DONALD C. STREEVER, JR.

Competition in the Auto Industry

Most of the auto industry experts anticipate 1954 passenger car output in the neighborhood of five million units. This would be a good year by any reasonable standard. It is not so very far below the six million produced in 1953, but the decline has hit some branches of the industry with the impact of a major depression.

A year ago, all was prosperity and optimism, though it was realized that the pace couldn't continue. Volume was then being bolstered by the backlog of consumer demand accumulated through two years of Korean restrictions and by deficiencies in dealers' stocks. Capacity production caught up with these needs in short order. As the total number of cars in use increased, used car prices dropped sharply, making it harder to sell new cars. Production had to be cut back. The whole sequence of changes brought things more into line with the competitive markets of the prewar years. It was, in effect, just a matter of getting back to normal.

The impact of these changes was, of course, uneven. Sales by some manufacturers and dealers practically came to a standstill. Many dealers found themselves with large inventories they couldn't move. The year ended in an atmosphere of fault-finding and recrimination. Charges of uneconomic practices flew back and forth, and there were veiled threats that government action would be obtained to restrain alleged offenders.

Competition Among Producers

Factory prices mostly held steady through the decline. The manufacturers generally believe that buyers can be attracted better by increasing quality than by reducing prices. Hence, the pattern of competition has long since been summarized in terms of the policy, "Always more for your money, but never less money!"

In fact, the trend might be as accurately described as one of "always more money." Stable factory prices have not kept average values from going up. Never before have so many expensive extras been offered. There are larger engines, special transmissions, radios, heaters, power brakes, power steering, seat shifters, window openers, and a variety of deluxe features, totaling more than half the base price of the car. Some time back it might have been claimed that the buyer was being forced to take extras he didn't want. Today, no one in the business will argue with the buyer about specifications, but the extras are called for in still greater volume.

In the fight for markets under these conditions, Ford has stood out as the most aggressive competitor. It has been pursuing a policy designed to regain market leadership and, temporarily at least, has taken first place away from Chevrolet. In recent months, Ford's share of the market has risen sharply, General Motors has gained a little, and Chrysler and the independents have lost ground. As things stand at the moment, General Motors commands about 50 percent of the market, Ford a little over 30 percent, Chrysler less than 15 percent, and all the independents combined about 5 percent. A year ago, Ford and Chrysler were about equal at just over 20 percent, and the independents totaled more than 10 percent.

No doubt styling played an important part in bringing about these shifts, but mechanical changes and improvements in driving and riding qualities were also important. Keeping up with improvements is an expensive proposition for the manufacturer as well as the consumer, and this fact alone makes the industry one of the hardest in which to compete. Cost can be brought to a competitive level only as sales volume is large enough to spread heavy tooling expense and other capital charges over many units. In the postwar period, two new manufacturers entered the industry, and neither found it smooth sailing. Tucker failed, and Kaiser has merged with Willys. Another merger — Nash and Hudson — awaits stockholders' approval. Still others are rumored.

Dealers' Margins

In contrast to the producers' problem, competition in distribution is mostly in terms of price. Since the factory price is beyond the dealer's control, this means that he competes by taking something less than the full margin provided by the manufacturer's suggested retail price. Services and guarantees make some difference, but most buyers won't pay much for advantages of this kind.

The dealer has various devices for raising or lowering prices, the foremost being adjustment of trade-in allowances. In some postwar years, allowances were low enough so that he not only realized his full margin on the new car but also made a good profit on the car he took in trade. Today he is generally offering enough so that he sacrifices something of his margin on both. Despite the stable factory prices of the past year or more, the actual prices charged have been cut more than 10 percent. This brings margins more nearly into line with prewar, when they averaged less than half the amount nominally provided.

Dealers who recently found themselves overstocked — with heavy carrying charges and declining prices on cars they couldn't sell — complained that the manufacturers had overproduced to the extent that the market was broken and the dealer forced to incur losses. The manufacturers, in reply, stressed the need for a greater selling effort and pointed out that the lush years of the sellers' market couldn't last forever.

What this controversy really amounts to is an argument about relative margins. The dealer doesn't want to bear the whole burden of lower prices. The manufacturer fears that cutting his established price may be self-defeating, by creating a popular impression that his product is inferior. He doesn't want to disrupt distribution by forcing his dealers out of business. On the other hand, the terms on which cars are sold are not inconsequential to him; for both the total market and his share of it depend in part on the prices consumers actually have to

(Continued on page 6)

ALUMINUM AND ALUMINUM PRODUCTS

Although there is a greater abundance of aluminum than of any other metal in the earth's crust, only in recent years has efficient production made aluminum cheap enough for large-scale use. A shovelful of clay taken at random from the ground can be made to yield aluminum — if cost is no object. Unlike such metals as gold and copper, aluminum is never found in its pure state, but is always chemically combined with other elements. The problem of aluminum production has been the extraction of the pure metal from these compounds.

A century ago, the only known process of production was so expensive that Emperor Napoleon III provided only his most honored guests with aluminum spoons and forks, while less important members of the court had to be content with mere gold and silver service. Napoleon III's real interest was stirred by dreams of the military advantages of lightweight armor and equipment. The Emperor's patronage led to the discovery of production methods which lowered production costs from $545 a pound in 1825 to $17 a pound in 1859, but it was still too expensive for any practical or large-scale use.

Commercial development of aluminum remained beyond the reach of man until 1886 when two young men, one French and the other American, each discovered the same refining process without knowing of the work of the other. This process, now known as the Hall-Heroult process, is still the basis of all commercial aluminum production. The process begins with the grinding of bauxite, the ore of aluminum. After bathing in a hot solution of sodium hydroxide, it is filtered, cooled, washed, and then heated white-hot. Alumina, or aluminum oxide, is the result. The alumina is then electrolytically reduced; the oxygen combines with the carbon of the electrodes, forming carbon dioxide gas, which escapes, and molten aluminum, which is deposited on the carbon bottom of the cell. The molten metal is then tapped into ladles and cast into "pigs."

Cheaper electric power and processing improvements have resulted in a continual drop in costs of production until in the latter part of 1953 the price of aluminum was about 18 cents a pound.

Illinois Plant First in Nation

The first plant in the United States constructed for the refining of bauxite into alumina was constructed in East St. Louis, Illinois, by the Aluminum Company of America in 1902. Its proximity to bauxite deposits in Arkansas and to coal, limestone, and railroad and water transportation facilities has helped this plant maintain a prominent place in the industry up to the present time. However, the increased importation of bauxite from South America and cheaper power has caused the construction of newer alumina plants in the Gulf States.

In addition to the Alcoa alumina plant, Illinois has one bauxite deposit, which also belongs to Alcoa, at Rosiclare; four fabrication plants, three of which belong to the Reynolds Metals Company and one to Alcoa; and a sheet rolling mill. The fabrication plants and the rolling mill are all located in the Chicago area.

The only process in the production of aluminum which is not carried on in Illinois is the reduction of alumina to aluminum. This is a process requiring tremendous quantities of electricity. Reduction plants have therefore been constructed in the southern and northwestern states where large supplies of cheap electricity are available.

There is, however, a considerable quantity of secondary aluminum production (smelting of new and old aluminum scrap) carried on in Illinois. With the exception of one plant located in Beckemeyer in the southern part of the State, these secondary producers are heavily concentrated in the areas immediately surrounding Chicago and Aurora where large quantities of new scrap are available from fabricators of aluminum products. Among the nine secondary producers is the Apex Smelting Company of Chicago, the largest of the industry.

Use in Illinois Industry and Agriculture

The increased availability and lower cost of aluminum have had a sizable effect on Illinois industry. Many of the State's most important industries are now using aluminum as one of their basic materials. Aluminum has, for instance, come into increasing use in the manufacturing of railroad locomotives and cars, a major industry in Illinois. An all-aluminum railroad passenger car weighs about 5 tons less than the old-type car, an important advantage with respect both to speed and to economy of operation.

Another industry which is using large amounts of aluminum is the construction industry, which accounted for almost 20 percent of 1951 consumption. An example of the possibilities of aluminum as a construction material was provided by the aluminum-clad home-office building recently completed in Pittsburgh by the Aluminum Company of America. The building is 30 stories high and was designed to meet the building codes of every city in the United States of over 100,000 population. Even wiring and piping is almost completely aluminum.

Other industries in which aluminum is becoming a basic material are bus and truck manufacturing, household appliances, electrical, radio and television equipment, and furniture for the office and household.

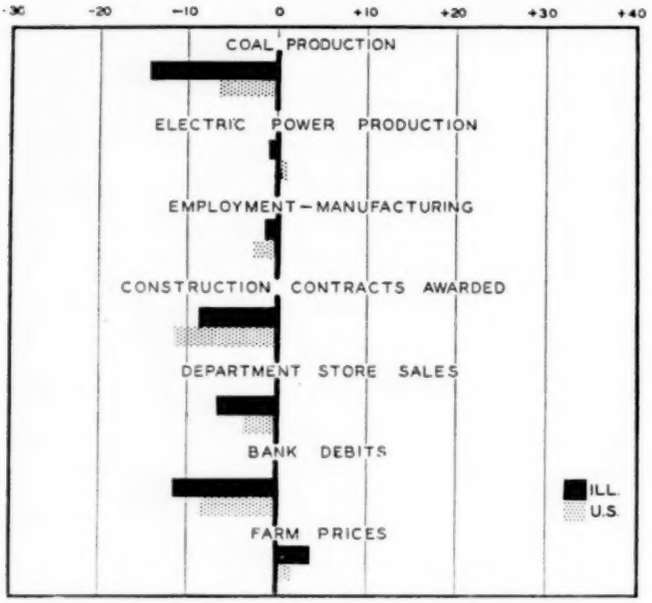
Of special interest to Illinois farmers is the recent development of aluminum pipe to be used for irrigation purposes. Unlike conventional irrigation systems, no ditches or permanent installations have to be made to use this light aluminum pipe which comes in sections and may be assembled or disassembled and moved from one field to another and used with local water supplies.

The development of lightweight, corrosion-free fiberglass reinforced plastic poses what will probably be the main competitive problem for aluminum in many uses. The metal has a large cost advantage, however, and the ultimate area of use is so great that its potentials have only begun to be tapped.

STATISTICAL SUMMARY OF BUSINESS ACTIVITY

SELECTED INDICATORS

Percentage changes December, 1953, to January, 1954



ILLINOIS BUSINESS INDEXES

Item	January 1954 (1947-49 =100)	Percentage Change from Dec. 1953	Percentage Change from Jan. 1953
Electric power[1]	183.0	− 0.8	+12.5
Coal production[2]	87.2	−14.6	+ 9.9
Employment—manufacturing[3]	105.3	− 1.3	− 5.0
Payrolls—manufacturing	n.a.	....	....
Dept. store sales in Chicago[4]	101.0[a]	− 6.5	+ 1.0
Consumer prices in Chicago[5]	116.7	+ 0.3	+ 2.2
Construction contracts awarded[6]	140.8	− 8.6	+56.0
Bank debits[7]	139.4	−11.7	− 2.7
Farm prices[8]	106.3	+ 3.8	+ 2.2
Life insurance sales (ordinary)[9]	139.5	−17.3	+ 4.1
Petroleum production [10]	97.4	+ 1.7	+ 5.9

[1] Federal Power Commission; [2] Illinois Department of Mines; [3] Illinois Department of Labor; [4] Federal Reserve Bank, 7th District; [5] U. S. Bureau of Labor Statistics; [6] F. W. Dodge Corporation; [7] Federal Reserve Board; [8] Illinois Crop Reports; [9] Life Insurance Agency Management Association; [10] Illinois Geological Survey.
[a] Seasonally adjusted. n.a. Not available.

UNITED STATES MONTHLY INDEXES

Item	January 1954	Percentage Change from Dec. 1953	Percentage Change from Jan. 1953
	Annual rate in billion $		
Personal income[1]	282.5[a]	− 0.7	+ 0.7
Manufacturing[1]			
Sales	284.4[a]	− 1.7	− 3.3
Inventories	46.4[a, b]	− 0.6	+ 4.7
New construction activity[1]			
Private residential	9.9	−13.3	+ 1.1
Private nonresidential	10.7	− 7.1	+ 9.5
Total public	8.5	− 5.4	− 3.0
Foreign trade[1]			
Merchandise exports	16.2[c]	+ 8.5	− 3.0
Merchandise imports	10.9[c]	+ 6.9	−13.8
Excess of exports	5.3[c]	+11.8	+30.4
Consumer credit outstanding[2]			
Total credit	28.1[b]	− 2.7	+ 9.5
Installment credit	21.4[b]	− 1.7	+13.8
Business loans[3]	22.5[b]	− 3.8	− 2.2
Cash farm income[3]	32.4	− 9.2	− 2.8
	Indexes (1947-49 =100)		
Industrial production[2]			
Combined index	125[a]	− 1.6	− 6.7
Durable manufactures	140[a]	− 2.1	− 9.1
Nondurable manufactures	112[a]	− 0.9	− 4.3
Minerals	113[a]	+ 1.8	− 2.6
Manufacturing employment[4]			
Production workers	104[a]	− 1.8	− 6.4
Factory worker earnings[4]			
Average hours worked	99	− 2.0	− 3.9
Average hourly earnings	135	+ 0.6	+ 3.4
Average weekly earnings	134	− 1.4	− 0.6
Construction contracts awarded[5]	151	−11.4	+ 7.1
Department store sales[2]	108[a]	− 3.6	− 2.7
Consumers' price index[4]	115	+ 0.3	+ 1.1
Wholesale prices[4]			
All commodities	111	+ 0.6	+ 0.8
Farm products	98	+ 3.7	− 1.7
Foods	106	+ 1.8	+ 0.7
Other	115	− 0.1	+ 1.2
Farm prices[3]			
Received by farmers	96	+ 2.0	− 3.4
Paid by farmers	113	+ 1.4	− 0.7
Parity ratio	92[d]	+ 1.1	− 2.1

[1] U. S. Dept. of Commerce; [2] Federal Reserve Board; [3] U. S. Dept. of Agriculture; [4] U. S. Bureau of Labor Statistics; [5] F. W. Dodge Corp.
[a] Seasonally adjusted. [b] As of end of month. [c] Data are for December, 1953; comparisons relate to November, 1953, and December, 1952. [d] Based on official indexes, 1910-14 = 100.

UNITED STATES WEEKLY BUSINESS STATISTICS

Item		1954					1953
		Feb. 20	Feb. 13	Feb. 6	Jan. 30	Jan. 23	Feb. 21
Production:							
Bituminous coal (daily avg.)	thous. of short tons	1,208	1,266	1,306	1,401	1,402	1,392
Electric power by utilities	mil. of kw-hr	8,551	8,684	8,674	8,855	8,976	8,147
Motor vehicles (Wards)	number in thous.	136.7	130.4	127.9	133.1	137.7	152.0
Petroleum (daily avg.)	thous. bbl.	6,217	6,221	6,172	6,159	6,195	6,449
Steel	1947-49=100	110.7	110.4	110.4	112.2	109.9	139.1
Freight carloadings	thous. of cars	619	624	624	628	617	682
Department store sales	1947-49=100	86	91	86	85	86	85
Commodity prices, wholesale:							
All commodities	1947-49=100	110.5	110.5	110.6	110.9	110.9	109.6
Other than farm products and foods	1947-49=100	114.4	114.4	114.5	114.5	114.5	113.1
22 commodities	1947-49=100	87.8	88.4	87.9	87.5	87.7	89.5
Finance:							
Business loans	mil. of dol.	22,555	22,556	22,638	22,502	22,686	22,881
Failures, industrial and commercial	number	215	277	238	233	208	200

Source: *Survey of Current Business, Weekly Supplements.*

RECENT ECONOMIC CHANGES

Foreign Trade in 1953

Merchandise exports, including Mutual Security and Department of Defense shipments, totaled a record $15.7 billion in 1953, $500 million above 1952. Excluding grant aid shipments, exports amounted to $12.2 billion, $1 billion below 1952, and were more nearly in balance with imports than in any year since World War II.

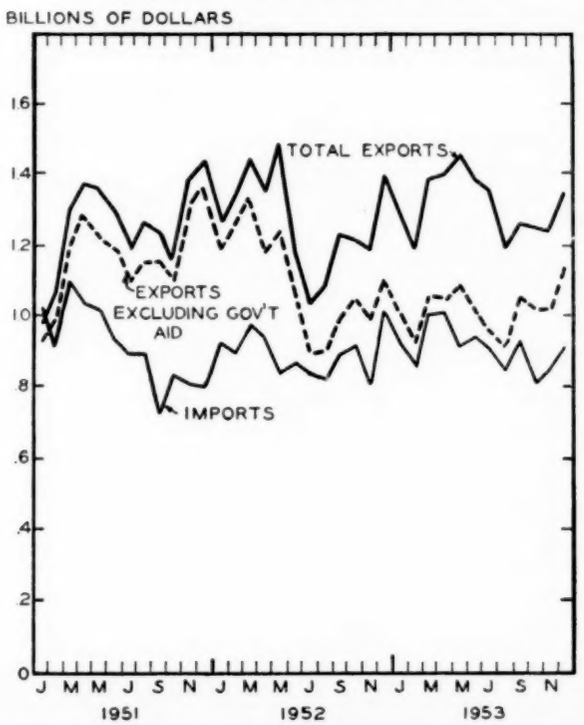
As shown by the accompanying chart, movements in exports (exclusive of government aid) and imports during 1953 corresponded roughly with the pattern established in the second half of 1952. Foreign demand for American merchandise fell sharply in mid-1952, largely because of reduced demand for U. S. agricultural products, particularly wheat and cotton. Foreign food shortages had largely disappeared and many food-importing countries resumed buying from traditional suppliers. High output and large stocks of cotton in other producing countries retarded demand for U. S. cotton exports during 1952 and most of 1953, although recently there have been indications of some improvement in cotton exports. Exports of fuels and steel were also down in 1953 as a result of improved supply conditions abroad and some reduction in demand.

Imports, though fluctuating considerably, tended upward during the first half of 1953, corresponding with the high level of business activity in this country and high demand for raw materials. In the second half of the year imports declined, reflecting the reduction in manufacturing activity.

Consumer Durables Output High in 1953

Production of consumer durables in 1953 exceeded 1952 by more than a fourth. With materials controls eliminated, automobile output totaled 6.1 million cars.

EXPORTS AND IMPORTS



Source: U. S. Department of Commerce.

This was about a half million below the 1950 peak, but 1.8 million above 1952.

Output of other major consumer durables reached a peak in the first quarter and then declined. By the fourth quarter, production was considerably below the first quarter rate and also below the 1952 average. The decline centered largely in such established lines as washing machines, refrigerators, and ranges.

Output of many relatively new durables continued to advance during the year. Production of air conditioners was in excess of 1 million units compared with 360,000 in 1952. Production of television sets expanded from about 6 million units in 1952 to 7.2 million last year, as over 200 new reception areas were established during the year. Radio production was well above the two previous years, with higher output of automobile radios accounting for almost all of the increase. Production of dryers and farm and home freezers continued to expand but the rate of increase slowed somewhat during the year.

GNP Up During Year, Down in Second Half

Gross national product amounted to $367.2 billion in 1953. Despite third and fourth quarter declines, this was more than 5 percent above 1952, as all major components of GNP except net foreign investment expanded during the year. Personal consumption expenditures advanced 5 percent to $230 billion. Private domestic investment increased 3.5 percent to $54.4 billion with advances in new construction outlays and purchases of producers' durables more than offsetting a $1.2 billion slowdown in the rate of inventory accumulation.

GROSS NATIONAL PRODUCT OR EXPENDITURE

(billions of dollars)

	1953	*1952*	*4th Qtr. 1953**
Gross national product	367.2	348.0	363.5
Personal consumption	229.8	218.1	230.0
Durable goods	30.1	26.7	29.1
Nondurable goods	121.2	118.8	120.4
Services	78.4	72.7	80.5
Domestic investment	54.4	52.5	48.8
New construction	25.1	23.4	25.3
Producers' durable equipment	26.7	25.4	26.5
Change in business inventories	2.5	.3.7	−3.0
Nonfarm inventories only	3.2	3.1	−2.3
Foreign investment	−1.9	−.2	−1.0
Government purchases	84.9	77.5	85.7
INCOME AND SAVINGS			
National income	307.7	291.6	n.a.
Personal income	284.5	269.7	285.9
Disposable personal income	247.9	235.0	249.3
Personal saving	18.1	16.9	19.3

* Seasonally adjusted at annual rates.

Federal, state, and local government purchases of goods and services also increased during the year. Federal expenditures increased $5.5 billion with national security outlays up $3 billion to $52 billion, a much smaller increase than in the two preceding years. Higher expenditures under the farm-price support program accounted for most of the remaining advance in Federal expenditures. At the state and local levels outlays advanced $1.8 billion largely because of continued high-level highway and school construction activity.

Within the year gross national product reached its peak in the second quarter and then declined. In the fourth quarter, GNP was down $6 billion from the third

quarter and $8 billion from the second to $363.5 billion (seasonally adjusted annual rates). All of the reduction reflects changes in the rate of inventory investment. During the second quarter inventories were accumulated at a $6.3 billion annual rate; in the third quarter accumulation slowed to $3.1 billion; and in the closing quarter stocks were liquidated at an annual rate of $3.0 billion.

Sales Decline Slightly

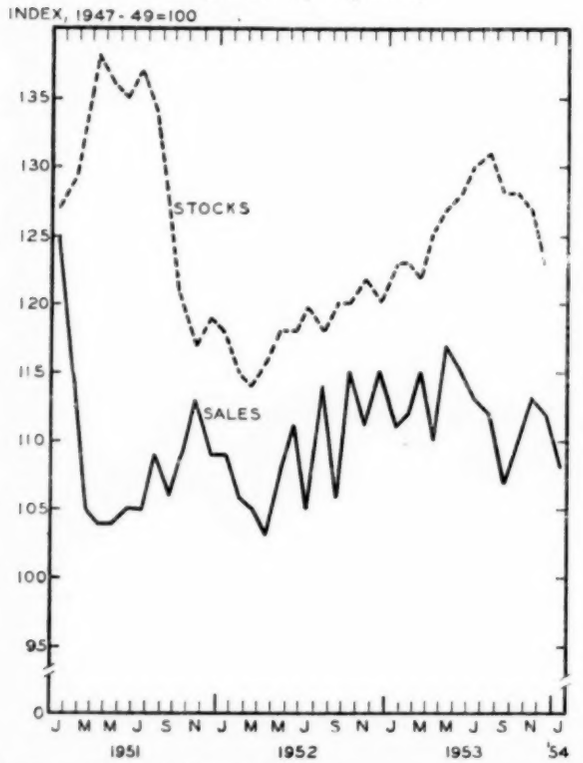
Despite reductions in employment and income which began in the third quarter of last year and have extended into the opening months of 1954, retail sales have declined only moderately. Monthly sales averaged $14.1 billion in the second half of 1953, only $300 million below the first six months. In January retail sales declined 1 percent to $13.8 billion, 3 percent below a year ago.

Most of the decline in business sales has occurred at the manufacturers' level. Between the first and second half of last year, manufacturers' sales declined only 2 percent, but sales in the fourth quarter were off 6 percent from the second quarter peak. In January deliveries dropped $400 million to $23.7 billion (seasonally adjusted), new orders declined by $1.8 billion, and backlogs decreased. Manufacturers cut back production relatively more than sales declined, so that the book value of their inventories was down to $46.4 billion in January from the September peak of $47.1 billion.

Although department store stocks were liquidated substantially following the involuntary expansion that occurred after demand slackened last fall (see chart), total retail inventories have been reduced only slightly.

The combined effect of continuing high level retail sales and the absence of large-scale liquidation of retail inventories may help reduce manufacturers' inventories to a level more in line with sales and possibly bring recent declines in employment to a halt.

DEPARTMENT STORE SALES AND STOCKS
(seasonally adjusted)



Source: Federal Reserve Board.

Competition in the Auto Industry

(Continued from page 2)

pay. The question thus becomes, not whether the dealer should have some margin or none, but merely how much.

Given conditions of production like those now existing, it is almost inevitable that competition will force some reduction in dealers' margins. Any dealer who refuses concessions loses sales to the others. Any manufacturer whose dealers generally refuse concessions will lose part of the market to his competitors. All have an interest in forcing the market to something like the same extent. No one, however, holds that it can be forced by production alone. Any overproduction that may have occurred seems to have been tied up with sudden, "unbelievable" reductions in market shares.

Bootlegging

A recent development that complicates the distribution picture is referred to as "bootlegging." The bootlegged cars are obtained from franchised dealers near the centers of production. These dealers sell new cars at a fraction of the normal margin to used car dealers who will transport them to points so distant that they cannot adversely affect the local market. Thus, the bootlegger plays a role like that of the discount house which sells other consumer goods at cut rates, though the situation is not quite the same, since the auto industry has never followed a policy of resale price maintenance.

The bootlegger may drive the cars to their destination or otherwise save enough on transportation to give him substantially the same gross margin as the new car dealer at that location. Because he has low overhead costs and does not have to conform to new-car service policies, he can sell at less than the margin needed by the new car dealer. If he offers cars at discounts of $300 or $400, the local new car dealer has to offer discounts in the range of $100 to $300. Most people prefer to buy from the established dealer and get the new-car guarantee; but some will forego this for a saving of $100 and many more will take their chances when the saving is as high as $200.

This price cutting would be clearly unfair if the dealer who put the cars into bootlegging channels in the first place was merely doing so to meet his sales quotas while maintaining margins in his home market. However, there is little to indicate that this is the case. Chicago and Detroit, where most of these transactions are reported to be originating, are among the most highly competitive markets in the country.

Under these conditions, bootlegging may be no more than a device for forcing price cuts in areas where local conditions might otherwise tend to restrict competition. Throughout the country there are semi-isolated markets in which new car dealers would not have to shade their margins greatly in the ordinary course of business relations. Whenever anyone in this position appears to have too much of a good thing, others will move in and take some of it away from him. In this case it is the bootlegger who does the job.

It is only natural for dealers to complain when both their volume and their profit margins are cut. Some have even been forced to close shop. After the situation gets shaken down, it is probable that most dealers will be able to earn reasonable, though by comparison much lower, profits. Nevertheless, the industry faces a continuing problem of dealer relations — one that will be aggravated in each recurring crisis. VLB

BUSINESS BRIEFS

PUBLICATIONS AND DEVELOPMENTS OF BUSINESS INTEREST

Language Translating Electronic Computer

An electronic computer which can translate Russian sentences into English has been developed by International Business Machines Corporation with the help of linguists from Georgetown University's Institute of Languages and Linguistics. Named "701," the present machine is guided by six basic rules of syntax and grammar and has a 250-word vocabulary of English equivalents.

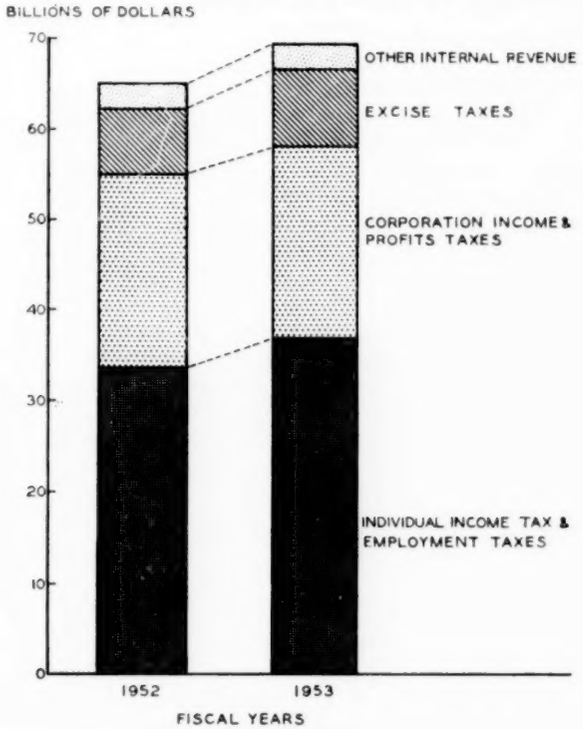
According to Professor Leon Dostert, Georgetown linguist who originated the practical approach to electronic translation, the machine will improve its ability to translate Russian and will someday tackle Germanic and Romance languages. Eventually the "701" will have separate dictionaries for each technical area and as many as 100 rules to guide its electronic translations, which are rattled off at the rate of 2½ lines a second. The Russian language was chosen as a starter because there is a large amount of data about the Soviet Union which has not yet been studied by Western scientists and technicians.

Mobility of the United States Population

Only about 2 percent of the adult population have always lived in the same house, according to a report recently released by the Bureau of the Census. Approximately 31 million persons, or 20 percent of the United States population one year old and over, changed residence between April, 1952, and April, 1953. Two-thirds moved within the same county; slightly over one-sixth moved between states.

The smallest proportion of movers was found among persons living on farms and in large cities and their environs and the highest proportion in the smaller cities and in towns and villages. A higher percentage of persons in the labor force moved than those not in the labor force, and the unemployed were more mobile than the employed. The survey also indicated that moving varied considerably with age and length of marriage. Young adults were much more mobile than the remainder of the population, and mobility declined steadily as the length of marriage increased.

INTERNAL REVENUE COLLECTIONS



Source: U. S. Treasury Department.

No Carbon Needed with New Type Paper

A new process makes it possible to produce multiple copies of business forms without using carbon paper. Called NCR (no carbon required) Paper, the new product utilizes the action of a colorless chemical coating on a claylike material. The underside of the first sheet is coated with a colorless chemical and the upperside of the second sheet is covered with the claylike substance. The impact of a typewriter character or the pressure of a pencil on the first sheet drives the chemical coating into contact with the material on the top of the second sheet causing an immediate chemical reaction which turns the claylike material blue, leaving a clean, sharp impression on the second sheet. The back of the second sheet, also coated with the colorless chemical, in turn passes the impression to the top of the third sheet, which is also coated with the claylike material. Up to seven copies can be made in this way with an electric typewriter and up to four copies can be made by hand.

Developed by the National Cash Register Company, Dayton, Ohio, the new paper, which has been under study since 1939, eliminates smudging, speeds efficiency in handling forms, and ends the dirt and bother of carbon paper. It will be priced to compete with carbon paper systems, according to the manufacturer.

Federal Tax Receipts

Individual income tax and employment taxes (railroad retirement contributions, old age insurance, and unemployment insurance) were still the major source of Federal receipts in 1953. About half of the Internal Revenue Service's collections came from individual income taxes and employment taxes, a third of the total came from corporation income and profits taxes, and about a tenth came from excise taxes. Collections totaled $69.7 billion in fiscal 1953 compared with $65.0 billion the preceding year (see chart). Excise taxes increased most from 1952, up 12 percent, but income and employment taxes gained almost as much, up 10 percent. Revenue from corporation income and profits taxes rose less than 1 percent, whereas other revenue increased 6 percent.

Collections during the first part of fiscal 1954 are slightly less than for the same period last year. The lowering of individual income taxes by about 10 percent on January 1, 1954, and the removal of excess profits taxes on corporations as of the same date will no doubt affect total receipts during fiscal 1954. However, in an effort to balance the budget and prevent inflationary deficits, the President has recommended that reductions in the general corporate income tax be deferred for a year and that excise tax rates be continued at the same level.

THIS OPTIMISTIC RECESSION

RUTH A. BIRDZELL, Research Associate

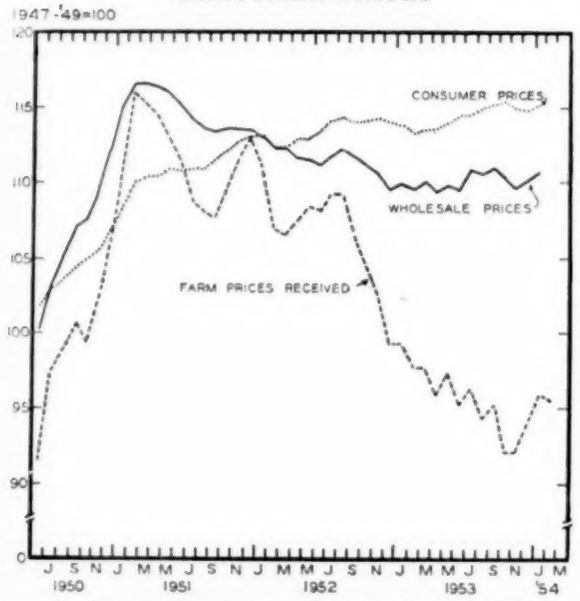
A striking aspect of the current business recession is the fact that most prices have remained virtually unchanged. Even though industrial production has declined almost 10 percent from the 1953 high, wholesale commodity prices have remained at their pre-slump levels and consumers' prices are a little higher. Moreover, stock market prices have actually been making new highs. These divergent movements have presented an economic puzzle for many observers.

Price Stability Follows Korean Bulge

Immediately after the outbreak in Korea, wholesale prices began a rapid climb which carried the BLS index from approximately 100 percent of the 1947-49 average in June, 1950, to 116 percent in March, 1951. (See Chart 1.) At that point the index was about 10 percent above the previous post-World War II peak. Farm prices rose more rapidly, but did not surpass the previous peak by so large a margin. The sensitive price index of 22 commodities, paced by industrial materials, rose about 70 percent between early 1950 and February, 1951. Imported materials such as rubber and tin played an important part. Consumer prices, lagging as usual, rose from 103 to 110 during this period, and then continued to move up after wholesale prices turned down.

When the scare began to wear off, sensitive prices dropped back during the spring of 1951, stabilized in the second half of the year, and then began a long slide which continued until the index was back to the pre-Korean level, at which point it tended to stabilize again. The comprehensive wholesale price index showed a similar pattern, although the changes were of smaller magnitude and the level at which it stabilized was higher. The rise in consumer prices slowed about mid-1952, but was not halted until October, 1953, and even now the index is right back at the peak.

CHART 1. FARM, WHOLESALE, AND CONSUMER PRICES



Sources: U. S. Department of Agriculture and Bureau of Labor Statistics.

The index of wholesale prices has varied less than one point from 110 (1947-49 = 100) since November, 1952. Following the harvest slump of last summer, the farm products component of the index registered a drop of 4 percent from the July level of 98, but by January had fully recovered. Prices of foods and other products have dropped only fractionally. Divergent changes have occurred among the subgroups of the "all other" classification, with increases somewhat smaller than decreases.

Even the weekly index of 22 sensitive commodities, marked earlier by substantial ups and downs, has remained between 85 and 90 percent of its base figure since late last March.

Consumer prices reflect changes in the business scene much more slowly than wholesale prices. The consumer price index has hovered around 114 or 115 of the 1947-49 base for the last year. Since last August the index has varied from 115 by less than one-half percent. Prices of the services and rents included in the index are, of course, noted for being "sticky," but the index is also stabilized by overhead and labor cost elements included in the prices of commodities sold at retail.

Termination of the Boom

In the period when prices were declining from the 1951 peak and then leveling off, the boom in business progressed to an early 1953 high and then began to recede. Gross national product rose more than $50 billion from the beginning of 1951 to a record annual rate of $371.4 billion in the second quarter of 1953. By the fourth quarter, it had dropped back to $363.5 billion and was still falling.

Industrial production adjusted more quickly to changed conditions on both the advance and decline. Chart 2 shows its rapid rise in 1950, followed by a fairly stable period until output was cut sharply by the 1952 steel strike. Thereafter, durable manufactures were the strong element in the rise to a high of 137 (1947-49 = 100) in the spring of 1953. Hard goods were also of major importance in the subsequent decline. By January the index of industrial production had dropped 12 points, or 8.8 percent, from its 1953 peak.

Much of this decline in business activity appears to reflect adjustments in inventories. In the second quarter of 1953, additions to stocks were estimated at $6.3 billion (seasonally adjusted annual rate). By the fourth quarter, business was cutting its inventories at the rate of $3.0 billion. This total swing of over $9 billion more than accounted for the entire decline in GNP.

In contrast with the typical inventory adjustment, in which price changes play an important part, prices in the present case have held steady.

Why Prices Have Continued Firm

A major reason for this apparent paradox lies in the special character of the inventory adjustment. Much of the cutback has centered in durable goods — consumers', producers', and military. In most of these lines, new orders fell below production rates and products began to back up at manufacturers' plants. In lines like automobiles and farm equipment, where declines in sales were relatively severe, stocks mounted sharply.

Most of these industries are characterized by short-run stability of prices. Sales are made on a contract basis, or various mechanisms of price administration keep prices fixed over considerable periods of time. With materials costs down, there was no need to raise product prices; and with volume still high, it was not necessary to trim prices. In some cases, output reductions have been achieved by elimination of overtime work, and this meant savings that tended to offset the adverse effects of declining volume on profits.

Moreover, in these industries, it is the manufacturers' established, or suggested, prices that enter the price indexes. In many cases, however, and especially in the auto field, there is a substantial gap between the established price and the price actually paid by the ultimate consumer, when discounts and "liberal trade-in allowances" are taken into account. Similarly, in the steel industry, prices are nominally about the same as they have been, but instead of the conversion deals which prevailed during the tight-supply period, price cuts are now available in the form of reduced extras and freight absorption.

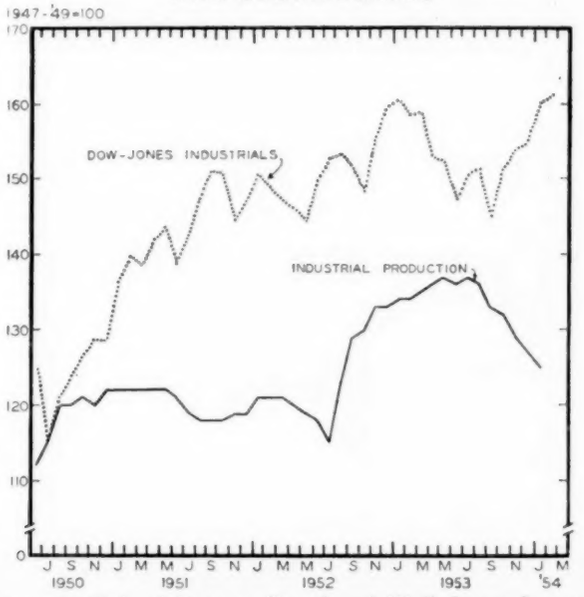
In the nondurable goods industries, where prices are typically more flexible, there has been no corresponding pressure of falling sales. These industries went through an inventory readjustment prior to the middle of 1952 and did not receive much of a stimulus in the subsequent period of advance.

In February, seasonally adjusted retail sales were off about 5 percent from the 1953 highs. Most of the decline occurred in durables, which were off 11 percent from the high made in February, 1953. Nondurables were off less than 3 percent from their July high, but were not significantly different from the level of a year earlier.

Consumer markets in general are still well supported. Disposable personal income, though down a little from the summer peak, remains above the year-ago level. It was strengthened further in January by the expiration of the last Korean boost of income taxes.

Even in the case of farm products, the declines that occurred in 1953 were largely unrelated to the decline in business. Farming in recent years has been plagued by excess production. Wartime and postwar demands for agricultural products, especially foreign demand, occasioned a build-up of production far beyond our domestic needs. Foreign demand for our farm products has now been reduced substantially, as other countries recovered from the effects of the war and increased production. Our production has not been altered in recognition of the changed circumstances, and this has resulted in downward pressure on prices as surpluses accumulated. However, with consumer income holding up fairly well, there is no reason to expect the current business adjustment to contribute to the recent weakness in this area.

CHART 2. INDUSTRIAL PRODUCTION AND STOCK PRICES



Sources: Federal Reserve Board and *Wall Street Journal.*

Security Prices Reflect Confidence

Stock market prices have discounted the downward movement in business activity to an even greater extent than commodity prices. Whereas production is down and commodity prices are stable, stock prices have shown a substantial upward trend since last September. (Chart 2.) The Dow-Jones average of prices of industrials reached a 25-year high early this month. Utilities have also been moving up consistently, but railroads are doing less well comparatively.

Most groups of stocks have shared in recent advances and many have reached new highs. Others have been stable or have shown moderate rises. Only a few groups, such as tobacco, have slumped. The volume of trading has been moderate, and there are no signs of unrestrained speculation in the market.

Part of this exceptionally favorable trend may be attributed to the reversal of interest rate policy. When interest rates fall, dividend yields are more attractive, and prices are bid up. Hence, the easier money policy initiated by the Federal Reserve system early last fall, after the "hard money" period that ended last June, helped maintain the high level of stock prices. The recent more open-handed attitude of corporation directors toward dividends has also encouraged investors.

Partly as a result of the return to easy money, there has been a growth in the over-all optimism both of investors and of corporation officers. That policy has provided one indication of the firm intention of the government to take steps to forestall a serious recession. Although not much has been done thus far, other indications are not lacking. Scheduled cuts in taxes on individual and corporate incomes have been made and further tax cuts are planned. The Administration wishes to balance the budget, but balancing will clearly give way to deficits if necessary to halt a severe slide.

Despite the recent slackening in business activity, therefore, most prices have remained steady at a high level. The majority of businessmen and consumers, while adopting a watchful attitude, have not been unduly frightened by the decline. Many businessmen have sized up the future as a time of high-level if not expanding business. Consumers are more cautious in their expenditures for durables but show no sign of drastically tightening their purse strings.

For the future, given international conditions similar to those now prevailing, commodity prices seem more likely to drift downward than to go up; for there is hardly an industry in this country where capacity is not sufficient to meet any foreseeable need. Such shifts as do occur, however, seem likely to be of modest proportions, similar perhaps to the gradual downward drift that prevailed through most of the great prosperity period of the 1920's.

LOCAL ILLINOIS DEVELOPMENTS

Illinois business activity declined seasonally during January. Indicators below both the December and January, 1953, levels included manufacturing employment, average weekly earnings, bank debits, and steel production. Steel mills in the Chicago District operated at only 76 percent of capacity during the month, turning out 1.8 million tons of steel. That was 2 percent less than in December and 16 percent less than in January, 1953.

However, some indexes registered strong gains over the same month a year ago — notably electric power production, coal production, construction contracts awarded, and petroleum production. Both the Chicago consumer price index, which rose to 116.7 (1947-49 = 100), and prices received by Illinois farmers edged upward by 2 percent from January, 1953.

Record-Breaking Tax Receipts in 1953

Illinois tax receipts reached a record high in 1953 with the help of unusually large sales tax collections. Major tax sources produced $422.2 million last year, up 13.2 percent from 1952. About half the total came from sales taxes, including $5.9 million in delinquent sales taxes. Other major sources of tax revenue were motor fuel ($129.2 million), cigarettes ($31.5 million), public utilities ($25.9 million), and liquor ($1.7 million).

January sales tax receipts dropped slightly below those of January, 1953, as did revenue from cigarette and liquor taxes. However, total major tax income in January was boosted to $37.4 million, up 4 percent from the same month of last year, primarily as the result of a 27 percent increase in revenue from motor fuel taxes.

Coal Production Rises

January coal production by Illinois mines topped January, 1953, output by almost 400,000 tons, according to the State Mines and Minerals Department. Production totaled 4.2 million tons during the month, with 114 mines in 29 counties reporting. Williamson, Franklin, and Fulton counties each produced more than 500,000 tons.

The National Coal Association estimated that output in Illinois during 1953 reached approximately 44 million tons, off 1 million tons from the 1952 level. The decline was caused partly by the importation of residual oil to supply East Coast utility markets, which has forced Eastern coal suppliers to seek markets in the Midwest.

Industrial Injuries

Compensable work injuries in Illinois in 1952 were most frequent among mining, quarrying, and petroleum production workers who reported 81.1 compensable injuries per 1,000 workers. Construction laborers had the second highest rate — 41.4 injuries per 1,000 workers. The lowest injury rate was among finance, insurance, and real estate men who had only 3.8 accidents for every 1,000 workers. The average for all nonagricultural industries was 16.8.

Unskilled workers suffered proportionately more injuries than other workers. Apprentices, helpers, and laborers accounted for 27 percent of compensable injuries, but they comprised only 7 percent of the labor force (see chart). Skilled and semi-skilled workers (35 percent of the employed labor force) also suffered a disproportionate number of injuries (56 percent of the total). Drivers of motor vehicles accounted for more injuries than any other separate occupation — 2,535 in 1952.

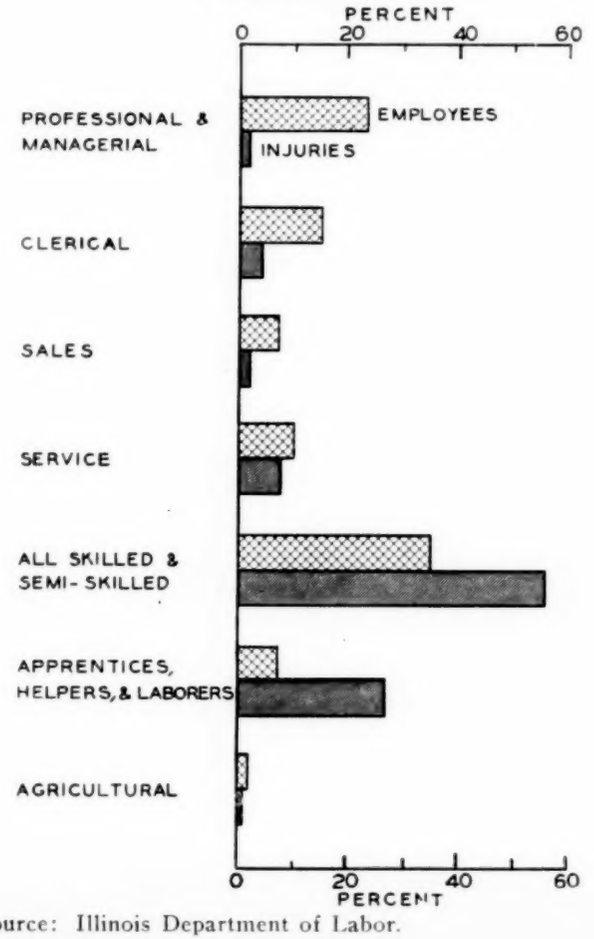
Of the occupational groups, construction workers were among the most severely injured, losing an average of 423 days per injury and collecting $628 in compensation. Of the individual occupations, injuries to window washers were the most severe whether measured by the average compensation paid ($1,500 per case) or the average number of days lost (1,193 per injury). The average for all occupations was 271 days lost and $433 paid in compensation.

Construction Contracts Rise

Construction contracts awarded in Illinois during January, off seasonally almost 9 percent from December, rose 56 percent above the level of the same month last year. That was considerably more than the 7 percent increase over January, 1953, reported by the F. W. Dodge Corporation for all 37 states east of the Rocky Mountains.

Awards for nonresidential building in Illinois during January, at $36.1 million, were almost double those of a year ago. Contracts awarded for public works and utilities ($12.8 million) were up 57 percent, and those for residential construction ($25.8 million) increased 20 percent from January, 1953. About half the nonresidential contracts were for commercial, educational, and manufacturing buildings. Almost all the residential awards were for one- and two-family houses.

COMPENSABLE WORK INJURIES BY OCCUPATION



Source: Illinois Department of Labor.

COMPARATIVE ECONOMIC DATA FOR SELECTED ILLINOIS CITIES

January, 1954

		Building Permits[1] (000)	Electric Power Consumption[2] (000 kwh)	Estimated Retail Sales[3] (000)	Department Store Sales[4]	Bank Debits[4] (000,000)	Postal Receipts[5] (000)
ILLINOIS		**$14,371**[a]	**978,240**[a]	**$664,395**[a]		**$12,183**[a]	**$12,607**[a]
Percentage Change from	Dec., 1953	−46.6	+2.8	+22.0	n.a.	−11.7	−37.4
	Jan., 1953	−2.9	−1.4	−3.5	−3	−2.7	+6.4
NORTHERN ILLINOIS							
Chicago		**$9,657**	**760,549**	**$484,985**		**$11,127**	**$10,951**
Percentage Change from	Dec., 1953	−57.5	+3.1	+20.7	n.a.	−12.0	−36.8
	Jan., 1953	−20.4	−1.5	−4.2	−3	−3.0	+7.1
Aurora		**$ 154**	n.a.	**$ 9,774**		**$ 48**	**$ 105**
Percentage Change from	Dec., 1953	+541.7		+32.0	n.a.	−0.9	−32.3
	Jan., 1953	+12.4		+0.3	−12	−1.0	+21.4
Elgin		**$ 171**	n.a.	**$ 7,222**		**$ 28**	**$ 84**
Percentage Change from	Dec., 1953	−37.8		+15.0	n.a.	−11.1	−41.9
	Jan., 1953	−20.5		+0.0	0	+2.2	+12.1
Joliet		**$ 683**	n.a.	**$16,047**		**$ 58**	**$ 99**
Percentage Change from	Dec., 1953	+125.4		+24.0	n.a.	−12.2	−42.1
	Jan., 1953	+189.4		+9.2	−9	−2.2	+23.7
Kankakee		**$ 64**	n.a.	**$ 6,695**		n.a.	**$ 33**
Percentage Change from	Dec., 1953	−66.1		+27.6	n.a.		−47.7
	Jan., 1953	+1.6		−3.8	n.a.		+6.6
Rock Island-Moline		**$ 199**	**20,066**	**$11,609**		**$ 77**[b]	**$ 159**
Percentage Change from	Dec., 1953	−68.2	+0.0	+24.2	n.a.	−4.8	−38.3
	Jan., 1953	+91.3	−7.2	−8.7	n.a.	−5.3	−3.4
Rockford		**$1,410**	**32,373**	**$20,626**		**$ 127**	**$ 189**
Percentage Change from	Dec., 1953	+165.5	+1.1	+22.2	n.a.	−13.3	−44.1
	Jan., 1953	+112.0	−1.6	+0.9	−12	−7.9	−4.0
CENTRAL ILLINOIS							
Bloomington		**$ 52**	**7,074**	**$ 6,532**		**$ 57**	**$ 81**
Percentage Change from	Dec., 1953	−70.6	+1.5	+25.2	n.a.	−10.9	−32.4
	Jan., 1953	+160.0	+2.2	−6.0	n.a.	−0.1	−16.5
Champaign-Urbana		**$ 40**	**9,578**	**$ 9,074**		**$ 55**	**$ 78**
Percentage Change from	Dec., 1953	−72.0	+4.6	+24.5	n.a.	−3.0	−49.2
	Jan., 1953	+21.2	+7.2	−2.2	n.a.	+4.7	−1.1
Danville		**$ 107**	**9,555**	**$ 7,705**		**$ 41**	**$ 52**
Percentage Change from	Dec., 1953	−55.6	+5.7	+25.9	n.a.	−1.5	−47.0
	Jan., 1953	+1.9	+10.4	−2.8	−5	+0.3	+0.0
Decatur		**$ 117**	**21,654**	**$13,188**		**$ 97**	**$ 101**
Percentage Change from	Dec., 1953	−48.0	−3.9	+28.4	n.a.	−6.9	−42.0
	Jan., 1953	+64.8	−3.3	+7.2	+9[c]	+20.1	+3.5
Galesburg		**$ 13**	**6,697**	**$ 5,333**		n.a.	**$ 36**
Percentage Change from	Dec., 1953	−77.6	−4.0	+25.3	n.a.		−37.7
	Jan., 1953	−31.6	−0.1	+0.0	n.a.		+5.4
Peoria		**$ 251**	**44,330**[c]	**$20,287**		**$ 177**	**$ 194**
Percentage Change from	Dec., 1953	−31.6	+3.2	+26.2	n.a.	−7.6	−51.8
	Jan., 1953	−52.2	−6.1	−7.5	−8[c]	+0.5	+3.8
Quincy		**$ 36**	**7,529**	**$ 6,206**		**$ 33**	**$ 79**
Percentage Change from	Dec., 1953	−49.3	+2.9	+29.2	−58	−10.9	−21.6
	Jan., 1953	+12.5	−0.2	−0.5	+3	−6.3	+6.3
Springfield		**$ 111**	**27,943**[c]	**$15,986**		**$ 96**	**$ 224**
Percentage Change from	Dec., 1953	−78.3	+0.5	+28.2	n.a.	−9.0	−29.9
	Jan., 1953	−59.0	+5.4	−7.4	n.a.	+1.7	−3.4
SOUTHERN ILLINOIS							
East St. Louis		**$ 967**	**12,862**	**$11,203**		**$ 126**	**$ 74**
Percentage Change from	Dec., 1953	+1,365.2	+2.4	+22.7	n.a.	−9.5	−40.1
	Jan., 1953	+812.3	−5.2	−3.7	n.a.	−5.9	+3.9
Alton		n.a.	**11,646**	**$ 6,633**		**$ 36**	**$ 27**
Percentage Change from	Dec., 1953		+4.6	+34.9	n.a.	−4.6	−55.8
	Jan., 1953		−0.7	+1.2	n.a.	+11.4	−9.7
Belleville		**$ 339**	**6,383**	**$ 5,292**		n.a.	**$ 40**
Percentage Change from	Dec., 1953	−11.5	+8.8	+24.5	n.a.		−43.3
	Jan., 1953	+352.0	+9.4	+0.2	n.a.		+21.5

[a] Total for cities listed. [b] Includes East Moline. [c] Includes immediately surrounding territory. n.a. Not available.

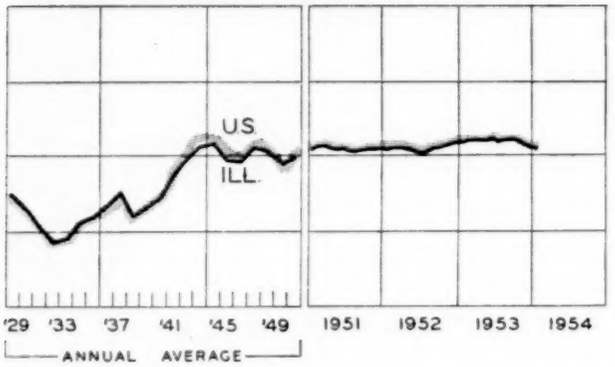
Sources: [1] U. S. Bureau of Labor Statistics. Data include Federal construction projects. [2] Local power companies. [3] Illinois Department of Revenue. Data are for December, 1953, the most recent available. Comparisons relate to November, 1953, and December, 1952. [4] Research Departments of Federal Reserve Banks in Seventh (Chicago) and Eighth (St. Louis) Districts. Department store sales percentages rounded by original sources. [5] Local post office reports.

INDEXES OF BUSINESS ACTIVITY

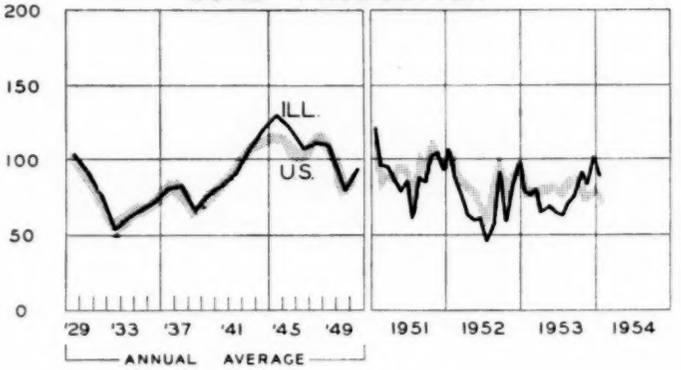
1947-1949 = 100

Office of Publications
Bureau of Labor Statistics
U. S. Dept. of Labor
Washington 25, D. C.

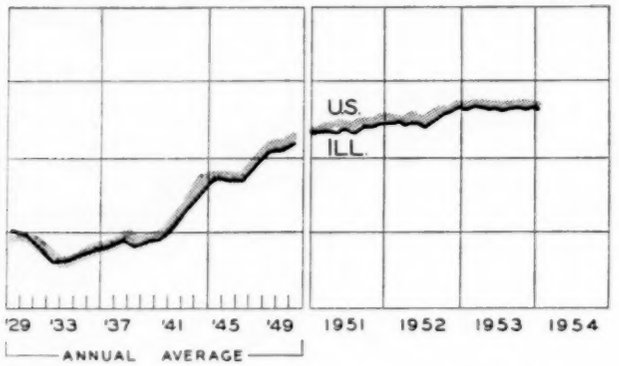
EMPLOYMENT - MANUFACTURING



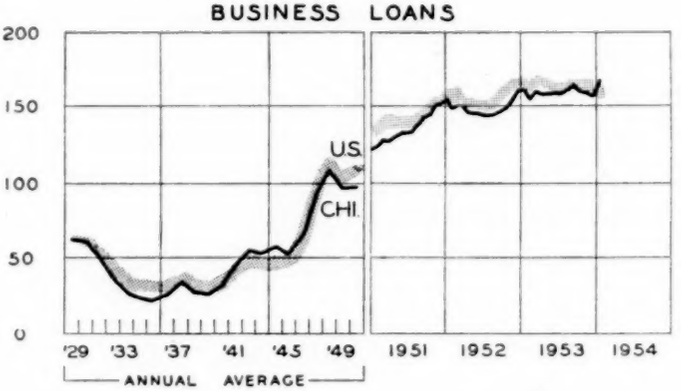
COAL PRODUCTION



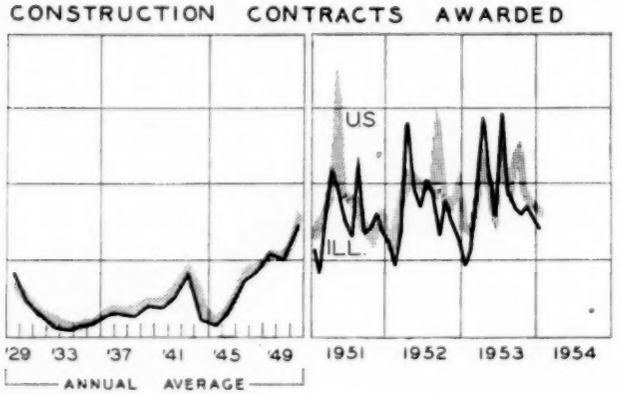
AVG. WKLY. EARNINGS — MANUFACTURING



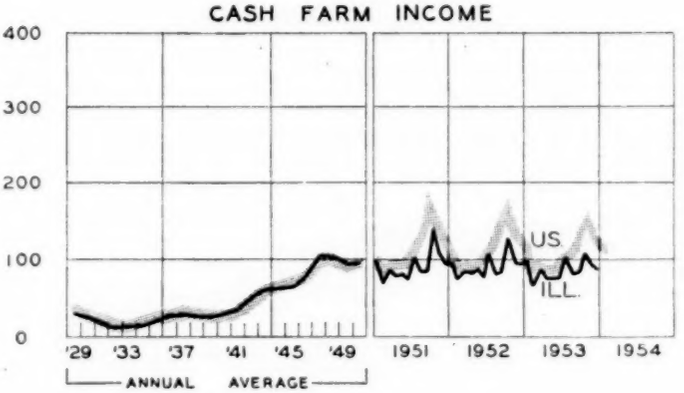
BUSINESS LOANS



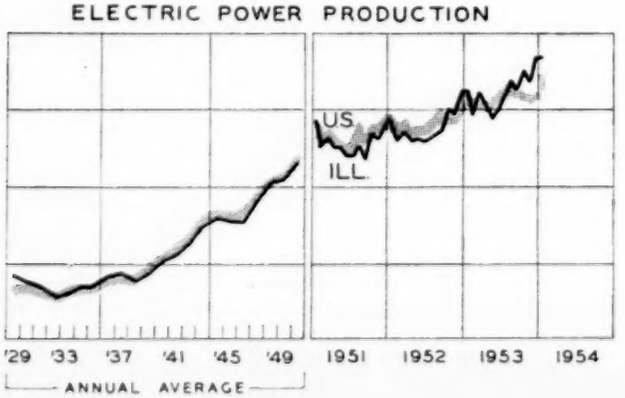
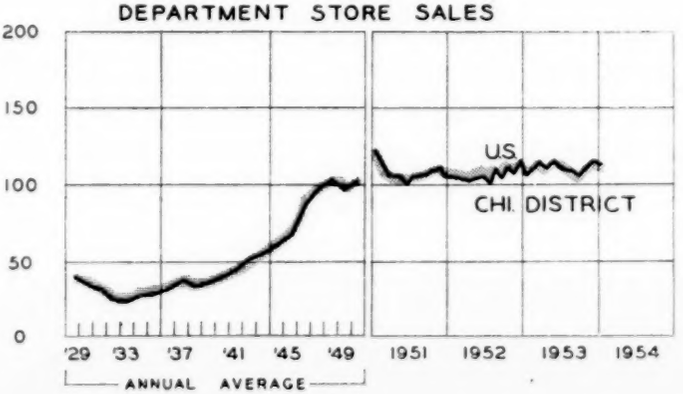
CONSTRUCTION CONTRACTS AWARDED



CASH FARM INCOME



ELECTRIC POWER PRODUCTION



DEPARTMENT STORE SALES